



Department of Veterans Affairs

Financial Policy

Volume IV

Revenues and Expenses

Chapter 2

Expenses

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0201 Overview

This chapter establishes the Department of Veterans Affairs' (VA) financial policies regarding expenses.

Key points covered in this chapter include:

- VA will follow the accrual basis of accounting as mandated by 31 U.S.C. § 3512(e);
- VA will record expenses in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 4, Managerial Cost Accounting Standards and Concepts;
- VA will utilize Budget Object Class (BOC) Codes in accordance with Office of Management and Budget (OMB) Circular A-11, Preparation, Submission and Execution of the Budget (Refer to Section 83) to record obligations and expenses; and
- VA will report expenses in the financial statements in accordance with OMB Circular A-136, Financial Reporting Requirements.

0202 Revisions

Section	Revision	Office	Reason for Change	Effective Date
Various	Completed full review	OFP (047G)	To ensure policy is current and relevant	December 2021
0203 Definitions	Updated definitions	OFP (047G)	Ensure consistency throughout VA Financial Policies and removed outdated terminology	December 2021
0204 Roles and Responsibilities	Added additional detail on responsibilities of Assistant Secretaries, Under Secretaries, Other Key Officials, and Chief Financial Officers	OFP (047G)	Provide clarification on roles and responsibilities of key officials	December 2021

Section	Revision	Office	Reason for Change	Effective Date
0205 Policies	<p>Performed a significant update to all policy sections</p> <p>Added Presentation and Disclosure of Expenses and Imputed Costs</p> <p>Removed sections related to Program Costs and Operating Expenses, Depreciation, Amortization, Depletion and Accounting for Extraordinary Items</p>	OFP (047G)	Enhance reader understanding and provide clarification on how to record and report on expense and reduce redundancy	December 2021
0206 Authorities and References	<p>Added references to SFFAS Nos. 7 and 33</p> <p>Added reference to FFMIA of 1996</p> <p>Added reference to TFM Volume I, Part 2, Chapter 4700</p> <p>Removed unnecessary links and corrected hyperlinks as needed</p>	OFP (047G)	Updated links to ensure the reader refers to current guidance	December 2021
0207 Rescissions	Rescinded policy dated March 2021	OFP (047G)	Rescission of previous policy version	December 2021
020503	Targeted change adding Flexible Spending Account Administrative Fees	OFP	Consolidation eliminates separate chapter coverage	March 2021

Section	Revision	Office	Reason for Change	Effective Date
Various	Reformatted to new policy format and completed 5-year review	OFP (047G)	Reorganized chapter layout	April 2018
0203 Definitions	Updated definitions	OFP (047G)	Enhance reader understanding	April 2018
0204 Roles and Responsibilities	Updated roles and responsibilities	OFP (047G)	Enhance reader understanding	April 2018
0205 Policies	Removed the “Presentation on Statement of Net Cost” section	OFP (047G)	Information provided in the Financial Reporting chapter	April 2018
0206 Authorities and References	Added additional authorities and references and updated links	OFP (047G)	Enhance reader understanding	April 2018
0207 Rescissions	Rescinded policy dated August 2011 Rescinded Volume III, Chapter 2 – FSA Administrative Fees dated September 2010	OFP (047G)	Rescission of previous policy versions	April 2018
Appendix A	Removed	OFP (047G)	Information available elsewhere	April 2018

0203 Definitions

Amortization – Expensing the acquisition cost less the residual value of an intangible asset, in a systematic manner, over the estimated useful economic life so as to reflect the consumption, expiration, obsolescence, or other decline in value.

Appropriation – Provisions of law, enacted by Congress, authorizing a federal agency to incur obligations and make payments for a given purpose. Usually, but not always, an appropriation provides budget authority.

Budgetary Accounts – A series of accounts that reflect the execution of budgetary authority.

Budget Object Class (BOC) Code – Categories in a classification system that present obligations by the items or services purchased by the Federal Government.

Capitalize – To record an expenditure or contribution for a tangible asset which may benefit a future period as an asset rather than to treat the cost as an expense of the period in which it occurs.

Depletion – Unlike depreciation and amortization, which mainly describe the deduction of expenses due to the aging of equipment and property, depletion is the actual physical reduction of natural resources.

Depreciation – The systematic and rational allocation of the acquisition cost of an asset, less its estimated salvage or residual value, over its estimated useful life.

Expense – Outflows or use of assets and/or incurrence of liabilities (or a combination of both), for which the benefits do not extend beyond the present accounting period.

Imputed Costs – The amount of costs incurred by a Federal entity for goods and services provided and paid for in total, or in part, by other Federal entities. Imputed costs must equal imputed financing sources.

Obligation – A legally binding agreement that will result in outlays, immediately or in the future. An obligation is a legal liability of the Government against an available appropriation.

Operating Materials and Supplies – Tangible personal property to be consumed in normal operations. Operating materials and supplies shall be categorized as (1) operating materials and supplies held for use, (2) operating materials and supplies held in reserve for future use, or (3) excess, obsolete, and unserviceable operating materials and supplies. See SFFAS 3, Accounting for Inventory and Related Property, for detailed information on categorizations.

Proprietary Accounts – A series of accounts used to record the financial activity of an entity. These accounts include categories such as assets, liabilities, fund balances, revenues, and expenditures. They do not include budgetary accounts.

0204 Roles and Responsibilities

Assistant Secretaries, Under Secretaries, Other Key Officials, and Chief Financial Officers are responsible for ensuring compliance with the policies set forth in this chapter. Specific responsibilities include the direction, implementation, and

management of policy guidance, and oversight of VA's financial management personnel, activities, and operations.

0205 Policies

020501 General Policies

- A. VA will follow the accrual basis of accounting as mandated by 31 U.S.C. § 3512(e).
- B. VA will adhere to SFFAS 4, SFFAS 55 and OMB Circular A-136 for the recording and reporting of expenses.
- C. VA will follow OMB Circular A-123 Management's Responsibility for Enterprise Risk Management and Internal Control, to develop and implement internal controls to ensure the timely and accurate reporting of expenses in VA's accounting system. Documentation to support recorded expenses shall be maintained to support the audit of the financial statements.

020502 Recording of Expenses

- A. VA will record expenses in accordance with SFFAS 4 to properly identify and allocate expenses to the appropriate accounting period.
- B. VA will record expenses when they are incurred and in the period that services are received and utilized or an asset is consumed, even if an invoice has not been received and/or paid.
- C. VA will record expenses in accordance with Treasury's U.S. Standard General Ledger (USSGL) using budgetary and proprietary accounts.
- D. VA will utilize BOC Codes in accordance with OMB Circular A-11, Preparation, Submission and Execution of the Budget (Refer to Section 83, Object Classification) to record and report obligations and expenses by category. For more information on BOC Codes, refer to VA Financial Policy, Volume XIII, Chapter 2 Budget Object Class Codes.
- E. VA will record expenses for goods and services provided to other Federal Government programs as intragovernmental transactions in accordance with TFM, Volume I, Part 2, Chapter 4700: Agency Reporting Requirements for the Financial Report of the United States Government. Refer to VA Financial Policy Volume I, Chapter 11, Intragovernmental Transactions for additional information.

- F. VA will record expenses for inventory, cost of goods sold, and operating materials and supplies in accordance with SFFAS 3. For more information, refer to VA Financial Policy Volume V, Chapter 8, Inventories, Materials, and Supplies.
- G. VA will record depreciation, amortization, or depletion expense for the allocation of the cost of an asset over the period of time benefitted or the asset's useful life. Refer to SFFAS No 4 and VA Financial Policy Volume V, Chapter 9, General Property, Plant and Equipment for more information.
- H. VA will record expenses for other postemployment benefits (OPEB), pension and other retirement benefits in accordance with SFFAS 5, Accounting for Liabilities of the Federal Government. VA will record an expense for OPEB at the time the accountable event occurs. In addition, the expense for employee's pension and other retirement benefits are recognized at the time the employees' services are rendered.
- I. VA will record amounts for future funded expenses relating to accrued expenses required to be funded from future year appropriations. For example, accrued annual leave expense, accrued workers' compensation, Veterans' benefits (compensation, burial, and education), medical claims benefits and future cleanup costs associated with environmental and disposal liabilities.

020503 Accounting for Employee Benefit Expenses

- A. VA will record its share of expenses for contributions to employee benefit programs in accordance with SFFAS 4. Current benefit programs include but are not limited to:
 - Retirement;
 - Federal Employees Group Life Insurance (FEGLI);
 - Voluntary Separation Incentive Payment (VSIP);
 - Federal Employees' Compensation Act (FECA);
 - Unemployment for Federal employees;
 - Social Security (Old-Age, Survivors, and Disability Insurance);
 - Medicare;
 - Imputed costs for post-retirement health benefits that are managed by Office of Personnel; and
 - Flexible Spending Account (FSA) administrative fees.
- B. VA will record and report its share of expenses for contributions to employee benefit programs administered by non-Federal entities (public cost) including health insurance and other miscellaneous fringe benefits using an attribute that designates the expenses as Non-Federal in the accounting system.

020504 Accounting for Imputed Costs

- A. VA will account for imputed costs in accordance with SFFAS 55, Amending Inter-entity Cost Provisions.
- B. VA will record inter-entity or imputed expenses for all business type activities. For non-business type activities, VA is not required to report inter-entity costs unless it is related to personnel benefits and the Treasury Judgement Fund Settlements or otherwise directed by OMB.
- C. VA will ensure that imputed costs will not exceed imputed financing.

020505 Accounting for Research and Development Costs

- A. In accordance with SFFAS 6, Accounting for Property, Plant, and Equipment, research and development costs for property, plant, and equipment will be expensed in the period incurred, unless the expenses are associated with the development of an end item produced for operational use. When the end item is produced for operational use, the expenses will be capitalized if the cost and life expectancy meet VA's capitalization threshold. Refer to VA Financial Policy Volume V, Chapter 9, General Property, Plant, and Equipment, for information on capitalization thresholds and accounting guidance for capitalizing, depreciating, or amortizing assets.
- B. In accordance with FASAB SFFAS 6, SFFAS 10, Accounting for Internal Use Software (IUS) and, Technical Release (TR) 16, Implementation Guidance for IUS, costs incurred in the development of the software requirements, conceptual formulation of alternatives, subsequent evaluation and testing of those alternatives, and final decision of a vendor to obtain Commercial off-the-shelf (COTS) software or to develop software internally costs are included in the planning/preliminary design phase. Costs that occur in the IUS planning/preliminary design phase will be expensed in the period incurred. Refer to VA Financial Policy Volume V, Chapter 13, Accounting for Internal Use Software [for more information](#).

020506 Presentation and Disclosure of Expenses and Imputed Costs

- A. VA will report expense (e.g., operating, depreciation, amortization, OPEB, pension benefits, employee benefit programs, etc.) in the financial statements in accordance with OMB Circular A-136.
- B. VA will recognize and report the gains and losses and include a disclosure of the components of the expense associated with federal employee pension and OPEB liabilities in the notes to the financial statements in accordance with SFFAS 33, Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates.

- C. VA will record losses from impairment. Losses of this nature will be recognized and reported in the Statement of Net Cost and may be included in program costs or costs not assigned to programs consistent with the requirements of SFFAS 4.
- D. VA will not charge budgetary accounts for expenses that do not result in outlays such as depreciation expense, imputed costs, or future funded expenses.

0206 Authorities and References

[5 U.S.C. § 1101, Office of Personnel Management](#)

[31 U.S.C. § 1104\(b\) Budget and Appropriations Authority of the President](#)

[31 U.S.C. § 3512\(e\), Executive Agency Accounting and other Financial Management Reports and Plans](#)

[FASAB Handbook by Chapter](#)

SFFAC 1, Objectives of Federal Financial Reporting

SFFAC 5, Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements

SFFAS 3, Accounting for Inventory and Related Property

SFFAS 4, Managerial Cost Accounting Standards and Concepts

SFFAS 5 Accounting for Liabilities of the Federal Government

SFFAS 6, Accounting for Property, Plant, and Equipment

SFFAS 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting

SFFAS 10, Accounting for Internal Use Software

SFFAS 21, Reporting Corrections of Errors and Changes in Accounting Principles

SFFAS 29, Heritage Assets and Stewardship Land

SFFAS 30, Inter-Entity Cost Implementation, Amending SFFAS No. 4, Managerial Cost Accounting Standards and Concepts

SFFAS 33, Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates

SFFAS 51, Insurance Programs

SFFAS 55, Amending Inter-entity Cost Provisions

FASAB, Technical Release (TR) 16, Implementation Guidance for Internal Use Software

[Federal Financial Management Improvement Act of 1996](#)

[National Defense Authorization Act, Public Law 108-136, Section 1127](#)

[Office of Financial Policy Publication](#)

VA Financial Policy Volume I, Chapter 4 – Compliance with FFMIA

VA Financial Policy Volume I, Chapter 11 – Intragovernmental Transactions
VA Financial Policy Volume V, Chapter 8 – Inventories, Materials, and Supplies
VA Financial Policy Volume V, Chapter 9 – General, Plant, and Equipment
VA Financial Policy Volume V, Chapter 13 – Accounting for Internal Use Software
VA Financial Policy Volume VI, Chapter 7 – Federal Employees' and Veterans' Benefit Liability
VA Financial Policy Volume VI, Chapter 8 – Environmental and Disposal Liabilities
VA Financial Policy Volume VI, Chapter 10 – Other Liabilities
VA Financial Policy Volume XIII, Chapter 2 – Budget Object Class Code
VA Financial Policy Volume XIII, Chapter 3 – Managerial Cost Accounting

[Office of Personnel Management Benefits Administration Letters \(BALs\)](#)

[OMB Circulars](#)

OMB Circular A-11, Preparation, Submission and Execution of the Budget
OMB Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control
OMB Circular A-123, Appendix D to Circular No. A-123, Compliance with the Federal Financial Management Improvement Act of 1996
OMB Circular A-136, Financial Reporting Requirements

[Treasury Financial Manual, Volume I, Part 2, Chapter 4700 Federal Entity Reporting Requirements for the Financial Report of the United States Government](#)

[United States Standard General Ledger \(USSGL\)](#)

[VA's Agency Financial Report](#)

0207 Rescissions

Volume IV – Chapter 2, Expenses, March 2021

0208 Questions

Questions concerning this financial policy should be directed to the following points of contact:

VHA	VHA Financial Policy (Outlook)
FSC	VAFSC Nationwide Accounting (Outlook)
VBA	VAVBAWAS/CO/FINREP (Outlook)
VBA	VAVBAWAS/CO/OPERATIONS (Outlook)
NCA	NCA Financial Policy Group (Outlook)
NCA	NCA Budget Service (Outlook)
All Others	OFP Accounting Policy (Outlook)